

IN THE UNITED STATES DISTRICT COURT  
FOR THE NORTHERN DISTRICT OF CALIFORNIA

PQ LABS, INC., and SHANGHAI PINQI  
DIGITAL TECHNOLOGY CO., LTD.,

Plaintiffs,

v.

YANG QI; ZAAGTECH, INC.; JINPENG  
LI; and HAIPENG LI,

Defendants.

No. 12-0450 CW

FINDINGS OF FACT  
AND CONCLUSIONS OF  
LAW

Plaintiffs PQ Labs, Inc. and Shanghai PinQi Digital Technology Co., Ltd. (PinQi) brought this action against Defendants Yang Qi, Jinpeng Li and Zaagtech, Inc. and former Defendant Haipeng Li for misappropriation of trade secrets, copyright infringement, trademark infringement, breach of contract, and various other business-related torts. A bench trial on these claims was held between March 10, 2014 and March 13, 2014. After considering all of the testimony, documentary evidence, and arguments of counsel presented during and after trial, the Court enters the following findings of fact and conclusions of law.

FINDINGS OF FACT

I. The Parties

A. PQ Labs & PinQi

PQ Labs is a California corporation which designs, develops, manufactures, and sells hardware and software in the form of

1 multi-touch screen overlays, which turn regular monitors into  
2 touch-screen monitors. The company was formed in October 2008 by  
3 its current CEO, Fei "Frank" Lu. Trial Tr. 165 (Lu). It has  
4 offices in San Jose and China.

5 Mr. Lu is also the CEO of PinQi, a Chinese corporation based  
6 in Shanghai. PinQi is a wholly owned subsidiary of PQ Labs. Id.  
7 165-66.

8 B. Yang Qi

9 Yang Qi is a Chinese citizen and current CEO of Zaagtech.  
10 Trial Tr. 283 (Qi). In February 2009, he was hired to serve as an  
11 independent contractor in PQ Labs' San Jose office. Id. 283.  
12 Although Mr. Lu interviewed Yang Qi for the position and made the  
13 decision to hire him, he relied on a human resources consulting  
14 firm called 22Miles to hire Yang Qi officially. Mr. Lu testified  
15 that he relied on 22Miles because he lacked sufficient American  
16 business experience to obtain the necessary employment visa for  
17 Yang Qi. Id. 58 (Lu).

18 Yang Qi was a trusted agent for Plaintiffs. Beginning in  
19 March 2009, he was tasked with managing PQ Labs' global sales  
20 operations and frequently traveled around the world to meet with  
21 prospective customers and distributors. Id. 366-67 (Qi). His  
22 official title at PQ Labs -- reflected in his email signature,  
23 internal business documents, and business cards -- was "Vice  
24 President of Sales and Marketing." Id. This role gave him access  
25 to the company's confidential pricing information and customer  
26 lists. Id. 378, 390. In addition, Yang Qi had the authority to  
27 enter into sales contracts on behalf of PQ Labs and did enter into  
28 such contracts on the company's behalf without obtaining approval

1 from Mr. Lu. Id. 61 (Lu). He also supervised company interns and  
2 often operated independently when Mr. Lu was working in Shanghai.  
3 Id. 61-62. Although he was officially paid a salary by 22Miles,  
4 he received a commission from PQ Labs, worked exclusively for PQ  
5 Labs, referred to PQ Labs as "my company" in his online chats with  
6 friends, and did not do any work for 22Miles during his employment  
7 there. Id. 285-86, 376-377 (Qi).

8 Yang Qi was terminated from his employment at PQ Labs in  
9 April 2010. Id. 293-94. That same month, he decided to found a  
10 competing multi-touch technology company called Zaagtech. Id.  
11 284-85.

12 C. Jinpeng Li

13 Jinpeng Li is a Chinese citizen and current Chief Technology  
14 Officer of Zaagtech. Trial Tr. 411 (J. Li). In July 2009, he  
15 signed an employment contract to work for PinQi in Shanghai as a  
16 hardware engineer. Ex. 16.<sup>1</sup> Mr. Lu testified that he intended  
17 for California law to apply to the employment contract, which  
18 states that it is to be applied "in accordance with other laws and  
19 regulations" besides those of the People's Republic of China.  
20 Trial Tr. 73-74; Ex. 16 at 1.

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21 <sup>1</sup> Attached to the employment contract was an employee  
22 handbook, which the contract incorporates by reference. Ex. 16  
23 at 1. The employee handbook contains certain confidentiality  
24 provisions, including that "the staff of the Company shall have  
25 the obligations and responsibilities for confidentiality works by  
26 holding the Company's trade secrets such as technologies and  
27 business in strict confidence." Id. 7-8. The employee handbook  
28 further prohibits employees from disclosing to those outside the  
company the following: customer information, sales information,  
intellectual property in product drawings, and other corporate  
data, and provides, "Employees shall not take away the Company's  
confidential information or its proprietary products and data."  
Id. 8.

Jinpeng Li was a trusted agent of Plaintiffs. He was promoted to the position of Technical Director, in which role he was responsible for designing hardware schematics and design prototypes, understanding how the company's software interacts with the hardware, and occasionally initiating and leading new research and development projects. Id. 70-72. While still working for PinQi he began performing work for Zaagtech, discontinuing work for PinQi two months later in June 2010. Id. 420, 424-25 (J. Li). He signed an employment contract to work for Zaagtech in September 2010. Id. 422-23.

D. Zaagtech

Zaagtech is a Chinese corporation which develops, manufactures, and sells multi-touch technology products. Trial Tr. 92, 152-53 (Lu); 444-45 (J. Li). It competes directly with PQ Labs and PinQi. Yang Qi founded the company in early 2010 and had it incorporated in June 2010. Id. 300.

E. Haipeng Li<sup>2</sup>

Haipeng Li is a Chinese citizen who has never worked for PQ Labs or PinQi. In January 2010, he and Yanq Qi formed a company called Multitouch Group to serve as a distributor for PQ Labs' touchscreen products. Trial Tr. 286, 376-77 (Qi). The two planned to use PQ Labs' customer lists to divert sales of PQ Labs' touchscreen devices to Multitouch Group and to share whatever

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<sup>2</sup> Haipeng Li was the only Defendant who did not testify or appear in Court for trial. Although Plaintiffs asserted during their opening statement that Haipeng Li remains a Defendant in this action, Trial Tr. 7, they referred to him as a "former defendant" in their post-trial briefs. Docket No. 176, Pls.' Opening Post-Trial Br. 4.

1 profits they made. Id. 377-78. They used this list to direct one  
2 sale of a PQ Labs product to Multitouch Group. Id. 382-84.

3 II. Facts Relevant to Plaintiffs' Claims

4 A. Plaintiffs' Trade Secrets

5 To avoid disclosing any of Plaintiffs' proprietary  
6 information, the Court refers to the nine technological trade  
7 secrets that Plaintiffs have asserted here as Trade Secrets 1  
8 through 6 and 8 through 10. Without describing these asserted  
9 trade secrets in detail, the Court notes that some of the asserted  
10 trade secrets pertain to hardware and circuitry design while  
11 others pertain to software. The Court finds that Plaintiffs have  
12 identified each of these trade secrets with particularity.

13 Plaintiffs have also shown that they derived independent  
14 economic value from these secrets. Mr. Lu specifically explained  
15 how each of the asserted technological trade secrets enabled  
16 Plaintiffs to produce their touchscreen products more efficiently  
17 than their competitors. Trial Tr. 105-32, 143-44.

18 The economic value of this technology is further evidenced by  
19 Plaintiffs' efforts to ensure that the technology was not publicly  
20 disclosed. The trial record demonstrates that Plaintiffs employed  
21 a variety of safeguards to protect the secrecy of their  
22 proprietary technology. Plaintiffs required all of their  
23 employees to sign confidentiality agreements. Id. 46 (Lu).  
24 Jinpeng Li signed such an agreement with PinQi in July 2009.  
25 Id. 72-73; Exs. 15-16. Mr. Lu testified that he also regularly  
26 reminded his employees of the importance of protecting the  
27 companies' latest technological developments. Trial Tr. 46, 190-  
28 91. Yang Qi admitted that he remembers receiving an email

1 specifically instructing him not to share PQ Labs' confidential  
2 information with people outside of the company. Id. 425.

3 In addition to the employee confidentiality agreements, PQ  
4 Labs employed other security measures to ensure that its  
5 technological secrets remained protected. These included the use  
6 of security cameras to prevent employees from removing any  
7 physical hardware from the company's offices and fingerprint-  
8 activated door locks to control access to its research facilities.  
9 Id. 44-45. PQ Labs also used secure servers to store its  
10 information and expressly prohibited its employees from copying  
11 files on their work computers to USB drives. Id. 45 ("When they  
12 leave the company for the day, they are not allowed to bring these  
13 company documents with [them]."). Employees were even prohibited  
14 from sending technological information -- such as software codes  
15 and hardware schematics -- over email between the company's  
16 Shanghai and San Jose offices because the San Jose employees did  
17 not perform any technological work. Id.

18 PQ Labs undertook similar efforts to protect its confidential  
19 customer information. For instance, it maintained all of its  
20 information about pricing and customers in a Google spreadsheet  
21 which it made accessible only to its sales employees. Id. 148-51;  
22 Exs. 23-26. The company also took steps to store confidential  
23 customer information in specific places on its server in order to  
24 prevent non-sales employees from accessing it. Trial Tr. 52-54.

25 Although Plaintiffs did not produce a copy of any signed  
26 confidentiality agreement between Yang Qi and PQ Labs, they did  
27 produce a copy of the agreement that PQ Labs entered into with  
28 22Miles. That agreement specifically provided that Yang Qi would

1 protect PQ Labs' confidential information. Trial Tr. 62-63; Ex.  
2 18. Plaintiffs also produced a copy of a separate agreement  
3 between 22Miles and Yang Qi under which Yang Qi agreed to keep PQ  
4 Labs' information confidential. Trial Tr. 63-64; Ex. 19. Based  
5 on this evidence, the Court finds that Plaintiffs undertook  
6 reasonable efforts to protect the trade secrets that they have  
7 asserted in this case.

8 The trial record also demonstrates that Defendants  
9 misappropriated Plaintiffs' technological trade secrets for use in  
10 making and selling Zaagtech's touchscreen products. Yang Qi  
11 emailed himself copies of PQ Labs' confidential customer lists and  
12 pricing spreadsheets three days before he was terminated. Trial  
13 Tr. 395-99 (Qi). He also admitted that he sought and received  
14 copies of PQ Labs' confidential hardware schematics from Jinpeng  
15 Li via email and online chats in January and February 2010, even  
16 though PQ Labs never directed him to engage in any technical work  
17 requiring access to these schematics. Id. 196 (Lu); 292, 298  
18 (Qi). During one of these chats, Jinpeng Li specifically praised  
19 Yang Qi's efforts to create a competing company using PQ Labs'  
20 proprietary technology. Id. 330 (Qi).<sup>3</sup> Yang Qi was also  
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22 <sup>3</sup> The Court notes that the parties dispute whether or not the  
23 words Jinpeng Li used to describe Yang Qi should be translated as  
24 "master of copying" or "master of reverse-engineering." The  
25 translation in the record -- to which both parties stipulated --  
26 uses the term "master of copying," Ex. 9, and Defendants failed to  
27 produce any evidence suggesting that this term should be  
28 translated differently. Jinpeng Li did not testify about which  
translation he prefers. In any event, regardless of whether the  
term is more accurately translated as "master of copying" or  
"master of reverse-engineering," the chat logs clearly indicate  
that Jinpeng Li supported Yang Qi's efforts to use PQ Labs'  
proprietary technology to form a competing company.

1 soliciting other friends during this same time period to help him  
2 develop touchscreen hardware and software modeled after PQ Labs'  
3 products. Id. 297-99.

4 Plaintiffs' expert, Dr. Andrew Wolfe, testified at length  
5 about the ways in which Zaagtech's touchscreen products  
6 incorporate Plaintiffs' technological trade secrets. Id. 257- 71.  
7 Although Defendants' expert, Dr. Sandeep Chatterjee, testified  
8 that many of these trade secrets could be reverse-engineered with  
9 relative ease, he never made any attempt to do so himself. Nor  
10 did he explain how reverse-engineering could yield the many  
11 specific similarities -- including portions of nearly identical  
12 source code -- that Dr. Wolfe identified between Zaagtech's  
13 products and PQ Labs' products.

14 In light of Defendants' failure to prove that Defendants  
15 actually obtained Plaintiffs' trade secrets through reverse-  
16 engineering, the Court finds that Zaagtech gained access to these  
17 trade secrets through Yang Qi and Jinpeng Li's misappropriation of  
18 PQ Labs' proprietary technology. In addition, the Court finds  
19 that both Yang Qi and Jinpeng Li willfully and maliciously  
20 misappropriated Plaintiffs' trade secrets.

21 B. Plaintiffs' Copyright

22 PQ Labs owns a copyright in the "PQ Labs MultiTouch System  
23 Software," Copyright Registration No. TXu 1-620-335. No witness  
24 testified at trial about the specific content or purposes of the  
25 copyrighted software.

26 C. Plaintiffs' Trademark

27 PQ Labs owns the "PQ Labs" trademark, Trademark Registration  
28 No. 4075660. Trial Tr. 97-98; Ex. 54. As of January 2012,



1 Zaagtech used the PQ Labs trademark in internet advertisements to  
2 suggest that Zaagtech was a manufacturer and distributor of PQ  
3 Labs' touchscreen products. Id. 94-97, 353-55; Exs. 56-58. For  
4 example, one advertisement read: "Zaagtech Inc. is a professional  
5 next window, ir touch, PQ labs [sic] manufacturer and exporter in  
6 China. We are specializing in next window, ir touch, PQ labs."  
7 Ex. 56. This statement was false on its face and has the tendency  
8 to deceive its audience and to influence purchasing decisions. By  
9 placing the advertisements on the internet, Zaagtech put them into  
10 interstate commerce. Zaagtech removed those advertisements only  
11 after receiving a takedown notice from PQ Labs. Trial Tr. 94-97,  
12 353-55.

13 D. "Phishing"<sup>4</sup> Emails

14 Plaintiffs maintain a network of computers, which they use  
15 for ordinary business purposes. Trial Tr. 154-55. Between  
16 January 26, 2011, and December 12, 2011, Plaintiffs' employees  
17 received at least seven phishing emails containing viruses or  
18 other harmful computer programs. Id. 155-62; Ex. 32. Those  
19 emails contained indications that the sender (or senders) was  
20 Chinese, and that the sender was familiar with Plaintiffs'  
21 products. Id. 155-61. As a result of these phishing emails,  
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23 <sup>4</sup> "Phishing involves an attempt to acquire information such  
24 as usernames, passwords, or financial data by a perpetrator  
25 masquerading as a legitimate enterprise. Typically, the  
26 perpetrator will provide an e-mail or link that directs the victim  
27 to enter or update personal information at a phony website that  
28 mimics an established, legitimate website which the victim either  
has used before or perceives to be a safe place to enter  
information." Patco Constr. Co. v. People's United Bank, 684 F.3d  
197, 204 n.5 (1st Cir. 2012).

1 Plaintiffs were forced to expend some \$280,000 on network  
2 upgrades, consulting fees, and other operating costs. Id. 162.  
3 However, the evidence at trial was not sufficient to demonstrate  
4 that Defendants were responsible for the phishing emails.

5 III. Facts Relevant to Damages

6 From August 2010 (the time that Zaagtech entered the market)  
7 until July 2013, the price of Plaintiffs' products fell  
8 approximately eighty-three percent. Trial Tr. 500.<sup>5</sup> As a result  
9 of that price erosion, although Plaintiffs' overall sales  
10 increased, compared with projections, profits fell. Id. 465-66,  
11 478, 481, 483, 489.<sup>6</sup> And although Plaintiffs' overall sales  
12 continued to increase after Zaagtech's entry into the market,  
13 sales of Plaintiffs' 52-inch and 60-inch monitors decreased.  
14 Id. 478.

15 The precise amount of lost profits, whether due to price  
16 erosion or lost sales, cannot be determined from the evidence  
17 produced at trial. Plaintiffs claim that price erosion cost them  
18 \$5.37 million in lost profits, based on projections that presumed  
19 sales trends and prices would have remained constant had Zaagtech  
20 not entered the market. Id. 465-466. In addition, Plaintiffs  
21 claim that the lower-than-projected sales of their 52-inch and 60-  
22 inch monitors cost them another \$1.89 million in lost profits.  
23 Id. 477-78.

24 \_\_\_\_\_  
25 <sup>5</sup> By comparison, during the same period the price for  
26 televisions fell approximately 43 percent. Trial Tr. 500.

27 <sup>6</sup> The "projections" referred to in this section are sales  
28 projections made by Plaintiffs' expert, Dr. Mark Berkman, based on  
past sales trends. Trial Tr. at 481.

Neither of these claims is credible. Plaintiffs' presumed damages from lost sales are not based on Zaagtech's sales figures; instead, they are derived by comparing projections based on Plaintiffs' past sales trends with Plaintiffs' actual sales during the study period. Id. 481, 518. The three-year projected sales trends are based on as little as three months' data. Id. 520-22. This undermines the credibility of Plaintiffs' claim regarding sales. In addition, although Zaagtech was Plaintiffs' most direct competitor, Plaintiffs' projections ignore numerous other competitors in the market. Id. 484-503, 515-16. This undermines the credibility of Plaintiffs' assumption that the price of their products would have remained constant during the study period. Consequently, the Court has no reliable data concerning the lost profits Plaintiffs suffered as a result of Zaagtech's entry into the market.

By misappropriating Plaintiffs' trade secrets, Defendants were spared the costs of research and development. The misappropriated trade secrets took approximately 3,580 hours to develop, at a cost of approximately \$214,800. Id. 105-06, 110, 114, 118, 122, 125, 130, 132, 144-45.

Finally, Plaintiffs suffered \$650 in lost profits as a result of the sale that Yang Qi diverted from PQ Labs to the Multitouch Group. Id. 613.

#### CONCLUSIONS OF LAW

##### I. Liability

##### A. Misappropriation of Trade Secrets (Claims 1, 2)

Plaintiffs allege that Yang Qi, Jinpeng Li, and Zaagtech misappropriated nine of their trade secrets pertaining to

1 proprietary technology. They also allege that these Defendants  
 2 stole confidential customer information, including "pricing  
 3 history, pricing, customer information and sales data." Pls.'  
 4 Opening Post-Trial Br. 6.

5 To prevail on a claim for misappropriation of trade secrets  
 6 under the California Uniform Trade Secrets Act (CUTSA), Cal. Civ.  
 7 Code §§ 3426 through 3426.11, a plaintiff must show that (1) it  
 8 owned a trade secret; (2) the defendant acquired, disclosed, or  
 9 used that trade secret through improper means, and (3) the  
 10 defendant's actions damaged the plaintiff. Cytodyn, Inc. v.  
 11 Amerimmune Pharmaceuticals, Inc., 160 Cal. App. 4th 288, 297  
 12 (2008). CUTSA defines a "trade secret" as

13 information, including a formula, pattern,  
 14 compilation, program, device, method,  
 technique, or process, that:

- 15 (1) Derives independent economic value,  
 16 actual or potential, from not being  
 17 generally known to the public or to other  
 persons who can obtain economic value  
 from its disclosure or use; and
- 18 (2) Is the subject of efforts that are  
 19 reasonable under the circumstances to  
 maintain its secrecy.

20 Cal. Civ. Code § 3426.1(d).

21 As set forth in the findings of fact, Plaintiffs derived  
 22 independent economic value from their asserted trade secrets.  
 23 Specifically, the technological trade secrets allowed them to  
 24 manufacture touchscreen products more efficiently than their  
 25 competitors. Likewise, their confidential customer information  
 26 enabled them to engage in targeted pricing and marketing. Thus,  
 27 both the technological information and customer information had  
 28 sufficient economic value to satisfy the first prong of CUTSA's

1 trade secret definition. See MMCA Grp., LTD v. Hewlett-Packard  
2 Co., 2010 WL 147937, at \*3 (N.D. Cal.) (noting that an "'alleged  
3 trade secret derives actual or potential economic value if a  
4 competitor cannot produce a comparable product without a similar  
5 expenditure of time and money'" (citations omitted)); Morlife,  
6 Inc. v. Perry, 56 Cal. App. 4th 1514, 1522 (1997) ("[A] customer  
7 list can be found to have economic value because its disclosure  
8 would allow a competitor to direct its sales efforts to those  
9 customers who have already shown a willingness to use a unique  
10 type of service or product as opposed to a list of people who only  
11 might be interested.").

12 Plaintiffs also showed that they made reasonable efforts to  
13 protect their asserted trade secrets. As noted above, they relied  
14 on a variety of protective measures including employee non-  
15 disclosure and confidentiality agreements, secure servers,  
16 controlled access to their research facilities, and strict company  
17 rules governing the sharing and copying of electronic information.  
18 Courts have recognized that procedures like these generally  
19 constitute "reasonable" efforts to protect trade secrets under  
20 CUTSA. See MAI Systems Corp. v. Peak Computer, Inc., 991 F.2d  
21 511, 521 (9th Cir. 1993) ("MAI required its employees to sign  
22 confidentiality agreements respecting its trade secrets, including  
23 the Customer Database. Thus, under the [C]UTSA, the MAI Customer  
24 Database constitutes a trade secret."); Religious Tech. Ctr. v.  
25 Netcom On-Line Communication Servs., Inc., 923 F. Supp. 1231,  
26 1253-54 (N.D. Cal. 1995) (finding that the plaintiff organization  
27 "put forward sufficient evidence that it took steps that were  
28 reasonable under the circumstances to protect its purported trade

1 secrets" by submitting a declaration from its president  
2 documenting the organization's use of "security personnel,"  
3 "electronic sensors attached to documents," and "confidentiality  
4 agreements for all of those given access to the materials").

5 Defendants argue that Plaintiffs' efforts to protect their  
6 trade secrets were not sufficient because Plaintiffs waited  
7 roughly twenty months after Yang Qi's and Jinpeng Li's employment  
8 ended to file the instant lawsuit. Defendants also note that  
9 Plaintiffs did not mark their products as confidential and failed  
10 to use certain security measures, such as "potting," to prevent  
11 reverse-engineering of their technological trade secrets. The  
12 Court previously rejected all of these arguments in its summary  
13 judgment order. Docket No. 113, Jan. 29, 2014 Order 9-12.  
14 Plaintiffs need not employ every conceivable method of protecting  
15 their trade secrets in order to show that they made "reasonable"  
16 efforts to do so. Defendants have not attempted to distinguish  
17 their most recent arguments from those which were previously  
18 raised and rejected. Instead, they rely on the same case law and  
19 evidence that they cited in their summary judgment briefs.  
20 Because Defendants' arguments remain unavailing, the Court  
21 concludes that Plaintiffs' asserted trade secrets satisfy the  
22 definition set forth in CUTSA.<sup>7</sup>

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24 <sup>7</sup> Defendants raise one new argument in their post-trial  
25 brief: that "Plaintiffs have not discharged their burden to show  
26 that PinQi owns any of the alleged trade secrets in this case."  
27 Docket No. 180, Defs.' Post-Trial Br. 10. This argument is  
28 undermined by Mr. Lu's testimony that he viewed the asserted trade  
secrets in this case as belonging to both PQ Labs and PinQi.  
Trial Tr. 42. Moreover, Defendants do not dispute that PQ Labs  
owned all of the trade secrets asserted here, nor do they dispute  
that PinQi is a wholly owned subsidiary of PQ Labs; as such,

1       The trial record demonstrates that Yang Qi and Jinpeng Li  
2 misappropriated these trade secrets by disclosing them -- without  
3 Plaintiffs' consent -- to Zaagtech, which then used them to  
4 produce, market, and sell its own competing touchscreen products.  
5 As explained above, Defendants' use of these trade secrets  
6 ultimately caused economic harm to Plaintiffs. Accordingly,  
7 Defendants' conduct constitutes misappropriation of trade secrets  
8 under CUTSA.

9       B. Copyright Infringement (Claim 3)

10       Plaintiffs did not raise any arguments in support of their  
11 copyright infringement claim in their post-trial briefs and  
12 conceded that they had presented "limited evidence" to support  
13 this claim at trial. Pls.' Opening Post-Trial Br. 23. Thus, the  
14 Court concludes that Defendants did not infringe Plaintiffs'  
15 copyright.

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25       Defendants implicitly acknowledge that their liability would  
26 remain the same regardless of whether or not PinQi co-owned any of  
27 the asserted trade secrets. Indeed, when the Court raised this  
28 point at trial and asked Defendants whether PinQi's ownership of  
the trade secrets was relevant, Defendants' counsel stated, "I'll  
yield the point." Id. 171-72.

1 C. Trademark Infringement and False Advertising

2 Plaintiffs bring claims against for trademark infringement  
3 and false advertising, alleging that Zaagtech<sup>8</sup> violated both the  
4 Lanham Act and California state law by using the mark "PQ Labs" in  
5 internet advertising, thereby falsely suggesting that it was a  
6 distributor and manufacturer of PQ Labs' touch-screen products.

7 1. Trademark Infringement: Lanham Act (Claim 5)

8 "To prevail on a claim of trademark infringement under the  
9 Lanham Act, 15 U.S.C. § 1114, a party 'must prove: (1) that it has  
10 a protectible ownership interest in the mark; and (2) that the  
11 defendant's use of the mark is likely to cause consumer  
12 confusion.'" Network Automation, Inc. v. Advanced Sys. Concepts,  
13 Inc., 638 F.3d 1137, 1144 (9th Cir. 2011) (citing Dep't of Parks &  
14 Recreation v. Bazaar Del Mundo Inc., 448 F.3d 1118, 1124 (9th Cir.  
15 2006)).

16 As set forth in the findings of fact, the trial record  
17 demonstrates that Plaintiffs had an ownership interest in the PQ  
18 Labs trademark, which Zaagtech infringed by using that mark  
19 without authorization in a manner that falsely suggested a formal  
20 business relationship between Plaintiffs and Zaagtech, and,  
21 therefore, was likely to cause confusion.

22 2. False Advertising: Lanham Act (Claim 6)

23 To prevail on a claim for false advertising under the Lanham  
24 Act, a plaintiff must show:

25  
26  
27 <sup>8</sup> The Court granted Defendants Yang Qi and Jinpeng Li summary  
28 judgment on Plaintiffs' trademark and false advertising claims  
against them.



(1) a false statement of fact by the defendant in a commercial advertisement about its own or another's product; (2) the statement actually deceived or has the tendency to deceive a substantial segment of its audience; (3) the deception is material, in that it is likely to influence the purchasing decision; (4) the defendant caused its false statement to enter interstate commerce; and (5) the plaintiff has been or is likely to be injured as a result of the false statement, either by direct diversion of sales from itself to the defendant or by a lessening of the goodwill associated with its products.

Southland Sod Farms v. Stover Seed Co., 108 F.3d 1134, 1139 (9th Cir. 1997) (citing 15 U.S.C. § 1125(a)). The first element may be met by showing "that the statement was literally false, either on its face or by necessary implication." Id. (citing Castrol Inc. v. Pennzoil Co., 987 F.2d 939, 946 (3d Cir. 1993)).

As set forth in the findings of fact, the trial record demonstrates that Zaagtech's advertisement, which stated that it was "PQ labs [sic] manufacturer and exporter in China" was literally false on its face. The statement has the tendency to deceive its audience and to influence purchasing decisions. By placing the advertisement on the internet, Zaagtech put it into interstate commerce.

The trial record does not, however, show that Plaintiffs suffered damages as a result of Zaagtech's false advertising; consequently, Plaintiffs may not recover damages for it. Harper House, Inc. v. Thomas Nelson, Inc., 889 F.2d 197, 210 (9th Cir. 1989) ("a competitor need not prove injury when suing to enjoin conduct that violates section 43(a), . . . In a suit for damages under section 43(a), however, actual evidence of some injury

1 resulting from the deception is an essential element of the  
2 plaintiff's case" (emphasis in original)).

3 3. False Advertising: California Law (Claim 7)

4 Section 17500 of the California Business and Professions Code  
5 makes it unlawful for a business to disseminate any statement  
6 "which is untrue or misleading, and which is known, or which by  
7 the exercise of reasonable care should be known, to be untrue or  
8 misleading." To prevail on a claim under this provision, "it is  
9 necessary only to show that members of the public are likely to be  
10 deceived" by a given advertisement. Kasky v. Nike, Inc., 27 Cal.  
11 4th 939, 951 (2002). As demonstrated in Part I.C.3, above, the  
12 trial record demonstrates that Zaagtech engaged in advertising  
13 that was likely to deceive members of the public. Consequently,  
14 Plaintiffs are entitled to injunctive relief. Kasky, 27 Cal. 4th  
15 at 951.

16 D. Tortious Interference with Prospective Economic  
17 Advantage (Claims 12, 13)

18 Plaintiffs allege that Defendants unlawfully interfered with  
19 their prospective economic advantage by stealing their customers.

20 To prevail on a claim for tortious interference with  
21 prospective economic advantage, a plaintiff must show "(1) an  
22 economic relationship between the plaintiff and some third party,  
23 with the probability of future economic benefit to the plaintiff;  
24 (2) the defendant's knowledge of the relationship; (3) intentional  
25 acts on the part of the defendant designed to disrupt the  
26 relationship; (4) actual disruption of the relationship; and  
27 (5) economic harm to the plaintiff proximately caused by the acts  
28

1 of the defendant.'" Korea Supply Co. v. Lockheed Martin Corp., 29  
2 Cal. 4th 1134, 1153 (2003) (citations omitted).

3 As set forth in the findings of fact, the trial record  
4 demonstrates that Yang Qi deliberately diverted at least one PQ  
5 Labs sale to Multitouch Group, the company that he had formed with  
6 Haipeng Li. Doing so evidenced all of the elements of this claim.

7 E. Phishing Email Claims

8 1. California Penal Code Section 502 (Claim 10)

9 Section 502 was enacted "to expand the degree of protection  
10 afforded to individuals, businesses, and governmental agencies  
11 from tampering, interference, damage, and unauthorized access to  
12 lawfully created computer data and computer systems." Cal. Penal  
13 Code § 502(a). Among other acts, section 502(c) makes it a public  
14 offense for any person to access a "computer, computer system, or  
15 computer network" without permission or to "introduce[] any  
16 computer contaminant into any computer, computer system, or  
17 computer network." Id. § 502(c)(7)-(8). In addition, section  
18 502(e) provides that the "owner or lessee of the computer,  
19 computer system, computer network, computer program, or data who  
20 suffers damage or loss by reason of a violation of any of the  
21 provisions of subdivision (c) may bring a civil action against the  
22 violator for compensatory damages and injunctive relief or other  
23 equitable relief."

24 Here, Plaintiffs failed to present evidence sufficient to  
25 show that Defendants were responsible for the phishing attacks.  
26 Thus, Plaintiffs are not entitled to relief on this claim.

## 2. Trespass to Chattels (Claim 18)

The "tort of trespass to chattels allows recovery for interferences with possession of personal property 'not sufficiently important to be classed as conversion, and so to compel the defendant to pay the full value of the thing with which he has interfered.'" Intel Corp. v. Hamidi, 30 Cal. 4th 1342, 1350 (2003) (quoting Prosser & Keeton, Torts (5th ed. 1984) § 14, pp. 85-86). To prevail on a trespass-to-chattels claim based on "unwanted electronic contact between computers," the plaintiff must establish that the unwanted contact "involved some actual or threatened interference with the computers' functioning." Id. at 1353.

Again, because they failed to provide evidence sufficient to show that Defendants were responsible for the phishing attacks, Plaintiffs are not entitled to relief on this claim.

## 3. Computer Fraud and Abuse Act (Claim 19)

"The CFAA prohibits a number of different computer crimes, the majority of which involve accessing computers without authorization or in excess of authorization, and then taking specified forbidden actions, ranging from obtaining information to damaging a computer or computer data." LVRC Holdings LLC v. Brekka, 581 F.3d 1127, 1131 (9th Cir. 2009). Among other acts, the statute makes it unlawful for any person to "knowingly cause[] the transmission of a program, information, code, or command, and as a result of such conduct, intentionally cause[] damage without authorization, to a protected computer." 18 U.S.C. § 1030(a)(5)(A). One circumstance that allows a plaintiff to bring a civil action under the CFAA is the "loss to 1 or more

1 persons during any 1-year period . . . aggregating at least \$5,000  
2 in value." 18 U.S.C. §§ 1030(c)(A)(1)(I), 1030(g).

3 Once again, because they failed to present evidence  
4 sufficient to show that Defendants were responsible for the  
5 phishing attacks, Plaintiffs are not entitled to relief on this  
6 claim.

7 F. Breach of Contract (Claim 14)

8 PinQi alleges that Jinpeng Li breached the confidentiality  
9 provisions of his employment contract by disclosing hardware  
10 schematics and other proprietary technological information.

11 "The elements of a cause of action for breach of contract  
12 are: 1) the existence of the contract; 2) performance by the  
13 plaintiff or excuse for nonperformance; 3) breach by the  
14 defendant; and 4) damages." McNeary-Calloway v. JP Morgan Chase  
15 Bank, N.A., 863 F. Supp. 2d 928, 954 (N.D. Cal. 2012).

16 Jinpeng Li breached the confidentiality provisions of his  
17 employment agreement with PinQi by transmitting Plaintiffs'  
18 hardware schematics to Yang Qi and by using those hardware  
19 schematics to generate hardware schematics for Zaagtech's  
20 products, causing damage to Plaintiffs.

21 G. Breach of Fiduciary Duty (Claim 15)

22 PQ Labs alleges that Jinpeng Li and Yang Qi breached their  
23 fiduciary duty to PQ Labs by misappropriating its trade secrets  
24 and using them to support Zaagtech.

25 To prevail on a claim for breach of fiduciary duty under  
26 California law, a plaintiff must show (1) the existence of a  
27 fiduciary duty; (2) a breach of that fiduciary duty; and  
28

(3) resulting damage. Pellegrini v. Weiss, 165 Cal. App. 4th 515, 524 (2008).

Here, both Jinpeng Li and Yang Qi were trusted agents who had fiduciary duties to Plaintiffs. Jinpeng Li, as an employee of PinQi, had a fiduciary duty to both his employer and to PQ Labs as PinQi's owner. See Thomas Weisel Partners LLC v. BNP Paribas, 2010 WL 126774, at \*5 (N.D. Cal.); see also Richardson v. Reliance Nat'l Indem. Co., 2000 WL 284211 (N.D. Cal.) (refusing to dismiss breach of fiduciary duty claim because defendants owed fiduciary duty to subsidiary of plaintiff's corporation). Yang Qi, although he was nominally employed by 22Miles, also had a fiduciary duty as an agent of Plaintiffs. Huong Que, Inc. v. Luu, 150 Cal. App. 4th 400, 410-11 (2007); see also 3 Witkin, Summary of California Law Agency § 100 (10th ed. 2005) ("An agent or employee is under a duty not to compete with his or her principal on matters connected with the agency, unless the principal and the agent otherwise agree."). As set forth above, these Defendants breached that duty by misappropriating Plaintiffs' trade secrets and disclosing them to Zaagtech, which then used them to produce, market, and sell its own competing touchscreen products, causing economic harm to Plaintiffs.

H. Fraudulent Concealment (Claim 16)

PQ Labs alleges that Yang Qi is liable for fraudulent concealment because he secretly formed Multitouch Group while he served as PQ Labs' account manager.

To prevail on a claim for fraudulent concealment under California law, "(1) the defendant must have concealed or suppressed a material fact, (2) the defendant must have been under

1 a duty to disclose the fact to the plaintiff, (3) the defendant  
2 must have intentionally concealed or suppressed the fact with the  
3 intent to defraud the plaintiff, (4) the plaintiff must have been  
4 unaware of the fact and would not have acted as he did if he had  
5 known of the concealed or suppressed fact, and (5) as a result of  
6 the concealment or suppression of the fact, the plaintiff must  
7 have sustained damage." Levine v. Blue Shield of Cal., 189 Cal.  
8 App. 4th 1117, 1126-27 (2010).

9 Yang Qi does not dispute that his involvement with Multitouch  
10 Group was a material fact, that he concealed that fact, that had  
11 he not concealed that fact PQ Labs likely would have acted  
12 differently, or that PQ Labs sustained damages as a result of his  
13 concealment. Yang Qi argues only that he cannot be liable for  
14 fraudulent concealment because owed no fiduciary duty to PQ Labs.  
15 However, the Court already has determined that Yang Qi did have a  
16 fiduciary duty to PQ Labs as that company's agent. Thus, Yang Qi  
17 is liable for fraudulent concealment.

18 I. Conversion (Claim 17)

19 Plaintiffs allege that Yang Qi took possession of a touch-  
20 screen monitor in February 2010 and then sold it through  
21 Multitouch Group without PQ Labs' authorization, thereby depriving  
22 PQ Labs of the full profit it would have earned on that sale.

23 To prevail on a claim for conversion, a plaintiff must show:  
24 (1) ownership or right to possess the subject property; (2) the  
25 defendant's conversion by a wrongful act or disposition of the  
26 property; and (3) damages. Spates v. Dameron Hosp. Ass'n, 114  
27 Cal. App. 4th 208, 221 (2003).  
28

As the findings of fact show, Yang Qi took possession of at least one touch-screen monitor, which he sold through Multitouch Group, thereby depriving Plaintiffs of \$650 in lost profits. Therefore, Yang Qi is liable for conversion.

J. Unfair Competition (Claims 4, 8, 9, 11, 20, 21)

Plaintiffs' unfair competition claims are based on the same allegations underlying its claims for trademark infringement (Claim 4); false advertising (Claims 8, 9); phishing emails (Claim 11); tortious interference with prospective economic advantage (Claim 20); and breach of fiduciary duty (Claim 21).

1. Unfair Competition: Trademark Infringement (Claim 4)

Claims of unfair competition alleging trademark infringement under California law are "subject to the same test" as trademark infringement claims under the Lanham Act. Jada Toys, Inc. v. Mattel, Inc., 518 F.3d 628, 631 n.1, 632 (9th Cir. 2008) (citations omitted); see also Mallard Creek Indus., Inc. v. Morgan, 56 Cal. App. 4th 426, 435 (1997) (in trademark infringement and unfair competition claims, "the ultimate test under both federal and California law is whether the similarity between the two marks is likely to deceive or confuse the public."). Thus, because the trial record demonstrates that Zaagtech infringed PQ Labs' mark under the Lanham Act, it also infringed and engaged in unfair competition under California law.

2. Unfair Competition: False Advertising (Claims 8, 9)

As set forth above, Defendants' description in an internet advertisement of itself as "PQ labs [sic] manufacturer and exporter in China" constituted false advertising under California



1 law. Thus, it also constituted unfair competition under  
2 California law.

3 3. Unfair Competition: Phishing Emails (Claim 11)

4 As set forth above, Plaintiffs failed to present evidence  
5 sufficient to show that Defendants were responsible for the  
6 phishing attacks. Plaintiffs are not entitled to relief on this  
7 claim.

8 4. Unfair Competition: Tortious Interference with  
9 Prospective Economic Advantage (Claim 20)

10 As set forth above, Plaintiffs demonstrated that Defendants  
11 interfered with Plaintiffs' business relationships by interposing  
12 Multitouch Group between Plaintiffs and at least one customer,  
13 thereby depriving Plaintiffs of at least \$650 in lost profits.  
14 This constitutes unfair competition under California law. See  
15 Angelica Textile Servs., Inc. v. Park, 220 Cal. App. 4th 495, 510  
16 (2013) ("conduct needed to maintain a statutory or common law  
17 unfair competition cause of action may consist of tortious  
18 interference with business relations").

19 5. Unfair Competition: Breach of Fiduciary Duty  
20 (Claim 21)

21 As set forth above, Plaintiffs demonstrated that Defendants  
22 Jipeng Li and Yang Qi breached their fiduciary duty to Plaintiffs  
23 by misappropriating and disclosing Plaintiffs' trade secrets.  
24 This constitutes unfair competition under California law. See  
25 Bancroft-Whitney Co. v. Glen, 64 Cal. 2d 327, 355 (1966) (where  
26 there is a "causal relationship" between a defendant's breach of  
27 fiduciary duty and a new competitive enterprise, the breach of  
28 fiduciary duty also constitutes unfair competition).

II. Remedy

A. Damages

1. Misappropriation of Trade Secrets

The CUTSA provides, in relevant part:

(a) A complainant may recover damages for the actual loss caused by misappropriation. A complainant also may recover for the unjust enrichment caused by misappropriation that is not taken into account in computing damages for actual loss.

(c) If willful and malicious misappropriation exists, the court may award exemplary damages in an amount not exceeding twice any award made under subdivision (a) or (b).

Cal. Civ. Code § 3426.3.

As set forth in the findings of fact, the only actual loss Plaintiffs were able to demonstrate at trial was \$650 in lost profits that resulted from Yang Qi's diversion of an individual sale from Plaintiffs to Multitouch Group. In addition, the trial record demonstrates that Defendants were unjustly enriched by \$214,800 by their misappropriation of trade secrets, which spared them the expense of conducting their own research and development. Thus, Plaintiffs are entitled to an award of actual damages in the amount of \$215,450.

In addition, the Court finds that Yanq Qi and Jinpeng Li engaged in willful and malicious misappropriation,<sup>9</sup> and awards Plaintiffs exemplary damages in the amount of \$430,900.

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<sup>9</sup> Zaagtech is not, itself, liable for exemplary damages because, "[u]nder California punitive damages law, a company simply cannot commit willful and malicious conduct -- only an individual can." Taiwan Semiconductor Mfg. Co. v. Tela Innovations, Inc., 2014 U.S. Dist. LEXIS 101657, at \*20-21 (N.D. Cal.).

2. Other Claims

Plaintiffs provided no evidence that it incurred economic damages as a result of Zaagtech's infringement of the PQ Labs trademark. The Ninth Circuit has made clear that, in order to recover monetary damages for trademark infringement, a plaintiff "must prove both the fact and the amount of damage." Lindy Pen Co., Inc. v. Bic Pen Corp., 982 F.2d 1400, 1407 (9th Cir. 1993). Similarly, a plaintiff in a California state law trademark action must prove damages in order to recover damages. Cal. Bus. & Prof. Code § 14250(a). Consequently, Plaintiffs cannot recover damages for Zaagtech's infringement of their trademark.

B. Injunction

The Lanham Act provides this Court with power to grant injunctive relief "to prevent the violation of any right of the registrant of a registered mark in the Patent and Trademark Office." 15 U.S.C. § 1116(a). In addition, under California's unfair competition law "relief is generally limited to injunctive relief and restitution." Walker v. Countrywide Home Loans, Inc., 98 Cal. App. 4th 1158, 1179 (2012).

The Court finds that Plaintiffs are entitled to an injunction barring Defendants from any further misappropriation of Plaintiffs' trade secrets, infringement of Plaintiffs' trademarks, or engaging in any false or deceptive advertising with regard to Plaintiffs and their products.

C. Attorneys' Fees and Costs

Plaintiffs seek an award of attorneys' fees resulting from their claims for misappropriation of trade secrets, trademark infringement, and false advertising. Defendants seek an award of

1 attorneys' fees resulting from their defense of the copyright  
2 claim.

3 1. Misappropriation of Trade Secrets (Claims 1, 2)

4 The CUTSA provides that where "willful and malicious  
5 misappropriation exists, the court may award reasonable attorney's  
6 fees and costs to the prevailing party." Cal. Civ. Code § 3426.4.  
7 As set forth above, the Court finds and concludes that Yang Qi and  
8 Jinpeng Li willfully and maliciously misappropriated Plaintiffs'  
9 trade secrets. Consequently, Plaintiffs are entitled to an award  
10 of attorneys' fees and costs resulting from their misappropriation  
11 of trade secrets claims.

12 2. Copyright Infringement (Claim 3)

13 Defendants argue that they, as the prevailing party on the  
14 copyright claim, are entitled to an award of attorneys' fees.  
15 Under 17 U.S.C. § 505, the court may in its discretion award the  
16 prevailing party reasonable attorneys' fees and costs. See also  
17 Seltzer v. Green Day, Inc., 725 F.3d 1170, 1180 (9th Cir. 2013)  
18 ("It is important to recall that the Supreme Court rejected the  
19 so-called British Rule where the loser pays; rather, attorneys  
20 fees are left up to the discretion of the district court" (citing  
21 Fogerty v. Fantasy, 510 U.S. 517, 533 (1994))). However,  
22 Defendants give the Court no reason to exercise that discretion,  
23 aside from the mere fact that they successfully defended against a  
24 single claim. The Court will not award attorneys' fees on the  
25 copyright claim. See Arp Films, Inc. v. Marvel Entm't Grp., Inc.,  
26 952 F.2d 643, 651 (9th Cir. 1991) (in litigation with a "mixed  
27 outcome," "the district court was well within its discretion in  
28 concluding that plaintiffs were not prevailing parties within the

1 meaning of section 505 . . . and accordingly were not entitled to  
2 costs or attorneys' fees").

3 3. Trademark Infringement and False Advertising

4 Congress amended the Lanham Act in 1975 expressly to permit  
5 the recovery of reasonable attorneys' fees in "exceptional cases."  
6 See 15 U.S.C. § 1117(a). "While the term 'exceptional' is not  
7 defined in the statute, generally a trademark case is exceptional  
8 for purposes of an award of attorneys' fees when the infringement  
9 is malicious, fraudulent, deliberate or willful." Lindy Pen,  
10 982 F.2d at 1409. Since the 1975 amendment, "numerous courts have  
11 awarded attorneys' fees to trademark owners who prosecuted actions  
12 against willful and deliberate infringers and counterfeiters."  
13 Playboy Enters., Inc. v. Baccarat Clothing Co., 692 F.2d 1272,  
14 1276 (9th Cir. 1982).

15 The Court concludes that this is an exceptional case.  
16 Defendants deliberately misrepresented themselves as Plaintiffs'  
17 "manufacturer and exporter in China," and used Plaintiffs'  
18 trademark to do so. Plaintiffs are entitled to an award of  
19 attorneys' fees resulting from their trademark infringement and  
20 false advertising claims.<sup>10</sup>

21 CONCLUSION

22 Plaintiffs' claims against Haipeng Li are dismissed for  
23 failure to prosecute.

24  
25 \_\_\_\_\_  
26 <sup>10</sup> Plaintiffs may not recover attorneys' fees for their unfair  
27 competition claims, even those that mirror their trademark and  
28 false advertising claims. Walker, 98 Cal. App. 4th at 1179  
(California unfair competition law "does not provide for attorney  
fees").

1 The clerk shall enter judgment for Plaintiffs on their claims  
2 for misappropriation of trade secrets, trademark infringement,  
3 false advertising, tortious interference with prospective economic  
4 advantage, breach of contract, breach of fiduciary duty,  
5 conversion, and unfair competition related to the same.

6 The clerk shall enter judgment for Defendants on Plaintiffs'  
7 claim of copyright infringement, California Penal Code section  
8 502, trespass to chattels, the Computer Fraud and Abuse Act, and  
9 unfair competition related to the same.

10 For their claim of misappropriation of trade secrets,  
11 Plaintiffs are awarded \$215,450 in actual damages jointly and  
12 severally against Yang Qi, Jinpeng Li, and Zaagtech; and \$430,900  
13 in exemplary damages jointly and severally against Yang Qi and  
14 Jinpeng Li.

15 Defendants are hereby enjoined from any further  
16 misappropriation of Plaintiffs' trade secrets, infringement of  
17 Plaintiffs' trademarks, or false advertising concerning  
18 Plaintiffs. An injunction shall issue separately.

19 As the successful party in this action, Plaintiffs are  
20 entitled, as set forth above, to recover reasonable attorneys'  
21 fees and costs they have incurred in prosecuting this action, the  
22 amount of which shall be determined by post-judgment motion.  
23 Plaintiffs may, within fourteen days of entry of judgment, make a  
24 motion for attorneys' fees and costs, which must be accompanied by  
25 declarations and exhibits demonstrating the number of hours  
26 expended, hourly rates, and itemized costs which Plaintiffs' seek  
27  
28

1 to recover.<sup>11</sup> Defendants may, within fourteen days after  
2 Plaintiffs make their motion, file an opposition only as to the  
3 amount and apportionment of fees and costs, not as to eligibility.  
4 Pursuant to Civil Local Rule 54-5, the parties are ordered to meet  
5 and confer regarding Plaintiffs' motion for attorneys' fees and  
6 costs within fourteen days of entry of judgment.

7 At trial, each side objected to some of the evidence  
8 submitted by the opposing side. The Court has reviewed these  
9 evidentiary objections and has not relied on any inadmissible  
10 evidence. The Court will not discuss each objection individually.  
11 To the extent that the Court has relied on evidence to which one  
12 side has objected, such evidence has been found admissible and the  
13 objections are overruled.

14 IT IS SO ORDERED.

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16 Dated: September 30, 2014

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CLAUDIA WILKEN  
United States District Judge

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<sup>11</sup> Because Plaintiffs are entitled to recover attorneys' fees and costs only for certain causes of action, their declarations must either demonstrate that the time expended and/or the itemized cost was related to one of those causes of action, or must set forth a rationale for apportionment of time expended and/or expenses where the amount sought involved multiple causes of action.